

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2006-97-WS - ORDER NO. 2006-582  
OCTOBER 9, 2006

IN RE:	Application of Tega Cay Water Service, Inc.	)	ORDER APPROVING
	for Adjustment of Rates and Charges and	)	RATES AND CHARGES
	Modifications to Certain Terms and	)	
	Conditions for the Provision of Water and	)	
	Sewer Service.	)	

**I. INTRODUCTION AND PROCEDURAL HISTORY**

This matter comes before the Public Service Commission of South Carolina (“the Commission”) on the application for an increase in rates and charges filed by Tega Cay Water Service, Inc. (“TCWS” or “the Company”). A Joint Motion for Settlement Hearing and Adoption of Settlement Agreement (“the Joint Motion”) was subsequently filed by the South Carolina Office of Regulatory Staff (“ORS”) and TCWS (together referred to as the “Parties” or sometimes individually as a “Party”).

This original application for approval of rates and charges was noticed in compliance with the instructions of the Commission’s Docketing Department. No Petitions to Intervene were filed; however, several protests were received by this Commission. The Commission held a public hearing in the service area on July 11, 2006. Subsequently, the Parties represented to the Commission that they had engaged in discussions on the issues of this case and determined that their interests and the public interest would best be served by settling all issues pending in the above-captioned case

under the terms and conditions set forth in a Settlement Agreement (the “Settlement Agreement,” also referred to as the “Stipulation” herein) executed by the Parties. The Joint Motion for a Settlement Hearing was granted.<sup>1</sup>

On August 22, 2006, the Commission held a hearing for the parties to describe the Settlement and to provide opportunity for public comment on the Settlement Agreement.<sup>2</sup> An evidentiary hearing was also held on the Settlement Agreement on August 29, 2006 (“the Settlement hearing”). At the Settlement hearing, TCWS was represented by John M.S. Hoefer, Esquire, and ORS was represented by Wendy B. Cartledge, Esquire, and Jeffrey M. Nelson, Esquire. The testimony of various witnesses was filed with the Settlement Agreement, and the parties requested that that testimony and any exhibits attached to the testimony be stipulated into the record of the case, along with the prefiled testimony of certain other witnesses. The only “live” testimony presented by the parties occurred at the August 29, 2006, hearing with the presentation of Converse Chellis, CPA, and B.R. Skelton, Ph.D.

In addition to presenting the testimonies of witnesses Chellis and Skelton, the Parties agreed to stipulate and to include in the hearing record of this case the prefiled direct testimonies of Willie J. Morgan, Lena Sunardio, and Bruce T. Haas, including all attached exhibits, as well as portions of the prefiled rebuttal of Haas, and the testimony of Daniel Sullivan with revised Audit Exhibits. The testimonies of ORS witness Sullivan (and his exhibits) and Company witness Skelton provide sufficient support to allow the

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<sup>1</sup> The Settlement Agreement and Exhibits are attached to this Order as Order Exhibit 1.

<sup>2</sup> No members of the public appeared in opposition to the Settlement Agreement.

Commission the discretion to adopt the Settlement Agreement. Sullivan's testimony provides grounds for adoption of the agreed upon accounting adjustments proposed by the parties in settlement. The testimony of Company witness Skelton supports the agreed upon rate of return.<sup>3</sup>

Based on the reasoning stated below, we approve the Settlement Agreement proposed by the parties, albeit with reservations about the manner in which it was presented.

## **II. RULING ON TEGA CAY WATER SERVICE'S OBJECTIONS**

The objections lodged by the Company with regard to this Commission's receipt of testimony from the public on the issues of customer service, quality of service, and customer relations are overruled. See Transcript of Testimony and Proceedings, July 11, 2006 at 6-7; see also Letter of TCWS (dated August 21, 2006). The Company had objected to public testimony on the grounds of possible due process violations, circumvention of Commission complaint procedures, and improper use of the public testimony to determine just and reasonable rates.

First, there are no due process violations. The Company has had the opportunity to file, and has filed, responses to the customers' testimony. It chose not to call witnesses to address customers' testimony. Second, there is no circumvention of complaint procedures. Clearly, the evening public hearing held in this case was for the express

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<sup>3</sup> While Skelton did not give any specific explanation to support his conclusion that the agreed upon rates were just and reasonable and adequate for the Company, we assume, based on his testimony and responses to questions, that he had read and was familiar with the earlier prefiled testimonies of Company witness Ahern and ORS witness Wooldridge in formulating his opinion. Upon entering into the Settlement Agreement, the parties withdrew Wooldridge's and Ahern's prefiled testimonies. See also Transcript of August 29, 2006 Hearing at 8-9.

purpose of receiving public opinion regarding the proposed rate increase and hearing any public comments, including complaints about the Company's service. "Quality of service" is a component that this Commission is required to consider in arriving at just and reasonable rates for the Company. Third, the Parties' objection that the Commission improperly used public testimony to determine just and reasonable rates in the present case is moot since the Commission is adopting the parties' own proposed rates as contained in the Settlement Agreement.

The objections are overruled, including the Company's objection to the Hearing Exhibits filed by the members of the public. The Company objected to all public hearing exhibits as being related to unsubstantiated complaints. However, these exhibits did not affect the Commission's ruling on the stipulations of the parties and are immaterial to this Order.

### **III. SUMMARY OF SETTLEMENT AGREEMENT**

In its Application, TCWS requested an increase in annual revenues of \$196,542. For the Settlement, the parties agree to an increase in net annual revenues of \$59,619.<sup>4</sup> As approved, TCWS receives approximately thirty percent (30%) of the proposed annual revenue set forth in its Application. The Company's last rate increase was in 1999.

As part of the settlement, the Company agreed to accept ORS's adjustments, as reflected in the Settlement Audit Exhibits, including the removal of the plant acquisition adjustment (PAA) from TCWS rate base (Adjustment #6) and from the calculation of net

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<sup>4</sup> The Company requested an increase in gross revenue of \$197,199 and an increase in uncollectible accounts of \$(657) which result in a net annual revenue increase of \$196,542. The Settlement Agreement included an increase in gross revenue of \$59,816 and an increase in uncollectible revenue of \$(197) which result in a net annual revenue increase of \$59,619.

income for return through amortization of the PAA (Adjustment #21). Additionally, as part of the settlement, the Company agreed to the exclusion of the 4% salary increase requested by TCWS. Under the proposed settlement rates, a residential water customer would experience a six cent per month increase in the basic facilities charge for water and no increase in the water commodity charge. With regard to sewer rates, a customer would receive a \$2.93 increase per Single Family Equivalent (SFE) in the monthly sewer charge.

The approved Settlement Agreement gives TCWS a net annual revenue increase of \$59,619. This net revenue increase is based on a stipulated return on equity of 9.40% and a return on rate base of 7.64%, with a resultant operating margin of 6.95%. As a part of the Settlement, TCWS agrees to file a performance bond for water service in the amount of \$300,000 and a performance bond for sewer service in the amount of \$350,000 by December 31, 2006. TCWS also agrees to deposit unclaimed refund monies with the State in the amount of \$10,822.92 which is the balance of refund monies posted to inactive accounts per Commission Order Nos. 1999-191, 1999-457, and 1999-733 resulting from TCWS' last rate case.

#### **IV. DISCUSSION**

##### **A. The Commission has the Power and Jurisdiction to Independently Review Settlement Agreements in Utility Rate Cases.**

By statute, the Commission is vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed

and followed by every public utility in this State. S.C. Code Ann. Section 58-5-210 (1976). Further, it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price at which the company's service is rendered and the quality of that service. Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 303 S.C. 493, 401 S.E. 2d 672 (1991).

At the August 29 hearing, counsel for TCWS candidly stated the position taken by the Company and the ORS regarding the Commission's power to independently review settlement agreements in utility rate cases:

It would be almost like....the parties come to you in the settlement of a wreck case, and one of the litigants has said, 'well, you know what, I've got a soft tissue injury and the chiropractor has told me I need, you know, this amount of therapy, and I want this amount of money.' But, they settled and that party comes to you and says, 'my concerns are resolved in that regard. I no longer need that therapy,' 'then the question is not whether you should order that therapy. The question is whether or not the parties' interest are reasonably resolved by the Settlement Agreement, and I think as you heard from both of the witnesses that I offered in support of the Settlement Agreement, the parties are always much better off devising their own resolution than having one imposed.

And so, the difference, the distinction, I would make for you, ....is, you don't have a party in this case telling you that this Settlement is not reasonable; you don't have a party in this case telling you that the Settlement is not in the parties' interest; and you don't have a party in this case telling you the public interest has not been served.

Transcript of Settlement Hearing, pp. 25, l. 24 – 26, l. 21.

We categorically reject this argument. The difference between the settlement of a public utility rate case and the settlement of a private dispute involving a "soft tissue"

automobile accident claim is obvious to this Commission. The former implicates this Commission's granting the authority to impose rates and charges on the customers of a state chartered monopoly, while the latter involves the settlement of a purely private controversy. TCWS and the ORS are essentially arguing that the Commission has no choice but to approve a settlement on the basis of their bald representations that it is just and reasonable and serves the public interest. This interpretation of the law is incorrect; it is not in the best interest of the customers of this state's regulated utilities. The Commission will not abdicate its duty to independently review a settlement agreement. An agency may not accept a settlement merely because the parties before it are satisfied; rather, an agency must consider whether the public interest will be served by accepting the settlement. See Citizens Action Coalition of Indiana, Inc. v. PSI Energy, Inc., 664 N.E. 2d 401, 406 (1993).

Further, the Settlement Policies and Procedures of the Commission (Revised 6/13/2006) address this issue. Section II of that document ("Consideration of Settlements") states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission's consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of

such settlements shall be based upon substantial evidence in the record.

Clearly, these Settlement Policies and Procedures differentiate between settlements in the type of private case (“soft tissue injury”) referred to by counsel for TCWS, and the case before us, where the settlement presents issues of significant implication for customers and/or the public interest.

As recognized by the Settlement Policies and Procedures, this Commission was clearly correct in convening “an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” The counsel for the Company is wrong in his attempt to characterize this case as a private matter between the Company and ORS. There is no question that this matter concerns the interests of the Company’s customers, and the public interest in general.

Act No. 175 of 2004, which established the Office of Regulatory Staff, did not change the duties of the Commission in this regard.<sup>5</sup> The parties, through their attorneys, expressed the opinion that, because ORS is the representative of the public interest, the Commission need not concern itself with an independent consideration and/or

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<sup>5</sup> Act 175 clearly did not include any explicit repeal of Section 58-5-210, and the South Carolina Supreme Court very recently reiterated the longstanding rule that implied repeal is extraordinary and disfavored under South Carolina law:

Repeal by implication is disfavored, and is found only when two statutes are incapable of any reasonable reconciliation. Mims v. Alston, 312 S.C. 311, 440 S.E.2d 357 (1994). Moreover, the repugnancy must be plain, and if the two provisions can be construed so that both can stand, a court shall so construe them.

Capco of Summerville, Inc. v. J.H. Gayle Const. Co., Inc., 368 S.C. 137, 141-42, 628 S.E.2d 38, 41 (2006) (citing City of Rock Hill v. South Carolina DHEC, 302 S.C. 161, 167, 394 S.E.2d 327, 331 (1990)).



determination of the issues, including whether or not the rates resulting from the Stipulation were just and reasonable and/or whether the public interest was served by the Stipulation. Tr. at 20; 24-25. This position is not in accord with existing law. The ORS is charged with representing the public interest in Commission proceedings, and it is also charged with making recommendations to the Commission with respect to standards, regulations, practices, or service of any public utility. S.C. Code Ann. Section 58-4-50(4) and (7) (Supp. 2005). (emphasis added). The ultimate decision as to what constitutes just and reasonable rates remains with the Commission.

**B. The Settlement Agreement Fails to Address Several Issues.**

This Settlement Agreement fails to speak to several issues which were either raised by the Parties or by TCWS's customers. These issues concern the Commission, but are not of sufficient magnitude to cause it to reject a settlement agreement which is otherwise just and reasonable. We believe that these issues should be dealt with on an administrative basis. However, we will briefly discuss these issues.

The Settlement Agreement specifically proposes the adoption of the prefiled direct testimony of ORS witness Willie J. Morgan. Settlement Agreement at 2. Beginning at page 10 of that testimony, Morgan describes a water loss problem with the Company, and, ultimately, calls for a water audit. TCWS provided information to Morgan stating that there is a difference between the purchased water quantity and the water sold to its customers. This difference is caused by leaks in the system, water used at the three wastewater treatment facilities, and an overflow issue at the Company's water tower. Morgan Testimony at 11. Morgan admits the Company's water loss does not directly

affect the Company's customers' bills, since their monthly water bills are based on the customers' usage registered through meter readings. He argues that water loss on the system could, however, indirectly impact the customers if the wholesaler, York County, raises wholesale rates to its customers. Id. However, he does not quantify the potential impact of the water loss on these ratepayers.

Morgan did not appear at the settlement hearing, and the Settlement Agreement does not directly address this issue. Further, no responsive testimony is before us. When this issue, among others, was raised by the Commission in the settlement hearing, this Commission heard different responses from the Parties. Counsel for TCWS stated that, "as part of the settlement, both parties agreed that all the issues have been resolved to their satisfaction." (emphasis added). Transcript of Settlement Hearing of August 29, 2006 at 15. However, counsel for ORS stated, "we believe the issues have either been resolved already or will be resolved through the Tega Cay Water Company's cooperation with the Office of Regulatory Staff." Id. at 23. (emphasis added). In additional discourse with the Commission, ORS counsel stated, "There are some issues that are still out there specifically as to the amount, where the water loss has been coming from. We don't know if it's a significant issue or not; however, we are, and the Company has agreed to continue to work with the Office of Regulatory Staff, to attempt to identify any potential water loss..." Id. at 31.

Although we are not convinced that the water loss issue was conclusively resolved, as shown by the statements of counsel cited above, we agree with Morgan that, at best, TCWS' water losses could have a potential indirect effect on the Company's

customers' bills. Accordingly, we believe that this issue may be dealt with administratively by another method, and that it should not prevent this Commission from approving the Settlement Agreement.

Likewise, the Company's customers complained of quality of service problems, such as poor quality of water, low water pressure, billing and meter reading inaccuracies, and sewerage backups at the July 11, 2006 evening public hearing. We would note that the Rebuttal Testimony of Company witness Haas attempts to address some of these issues, but his testimony does not respond to all of the stated quality of service problems. However, we are satisfied that the various matters of service quality may be addressed administratively through action outside of this Docket, such as through reports and inspections requested pursuant to S.C. Code Ann. Sections 58-3-190 and 58-3-200 (Supp. 2005) and other appropriate measures. This is not to say that the mechanisms provided by these statutes will necessarily be sufficient to address the Commission's concerns in other cases, but we believe that they will be adequate in the present case.

#### **V. CONCLUSION**

Accordingly, we have examined the Settlement Agreement in the present case, and we believe that the evidence provided is so deficient that it is within the Commission's discretion to deny the requested rate increases. However, in spite of the weakness of some of the evidence provided by the parties to support their settlement, we are convinced that the settlement rates, which are much lower than those originally applied for, should be approved. The increases described herein in Section III appear to be reasonable, despite the lack of strong supporting evidence in the areas described

above. Although we are troubled about the failure of the parties to provide all appropriate witnesses in support of the Settlement, we hold that the Settlement in this case produces rates which are just and reasonable. We would, however, urge the parties to make all appropriate witnesses available in the future to address Commission concerns that arise. Further, witnesses should be presented to address issues raised by the parties themselves which remain unresolved, such as the water audit question. With regard to the present case, we are satisfied that the other matters of concern to this Commission can be addressed administratively through action taken outside of this case.

#### **VI. ORDER**

IT IS THEREFORE ORDERED THAT:

1. The Stipulation between the parties is approved and adopted by this Commission as producing just and reasonable rates, and a reasonable rate of return to the Company. The rates imposed shall be those rates agreed upon in the Stipulation between the parties as shown in Order Exhibit 1 and shall be effective on and after the date of issuance of this Order.
2. The Company is entitled to the opportunity to earn a 9.40% return on equity, a 7.64% return on rate base, and a 6.95% operating margin.

3. This Order shall remain in full force and effect until further Order of the Commission.

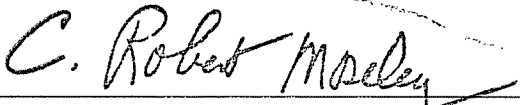
BY ORDER OF THE COMMISSION:



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G. O'Neal Hamilton, Chairman

ATTEST:



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C. Robert Moseley, Vice Chairman

(SEAL)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2006-97-WS**  
**August 21, 2006**

Application of Tega Cay Water	)	
Service, Inc. for adjustment of	)	<b>SETTLEMENT AGREEMENT</b>
rates and charges and modifications to	)	
certain terms and conditions for the	)	
provision of water and sewer service.	)	
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This Settlement Agreement is made by and between the Office of Regulatory Staff ("ORS") and Tega Cay Water Service, Inc. ("TCWS" or "the Company") (together referred to as the "Parties" or sometimes individually as "Party").

WHEREAS, the Company has prepared and filed an Application seeking an adjustment of its rates and charges and modifications to certain terms and conditions set out in its rate schedule for the provision of its water and sewer service;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2005), and the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, since the filing of the Application, ORS has propounded numerous data requests to TCWS and the Company has provided those responses to ORS;

WHEREAS, ORS has audited the books and records of the Company relative to the matters raised in the Application and, in connection therewith, has requested of and received from the Company additional documentation;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests and, in the case of ORS, in the public interest; and

WHEREAS, following those discussions the Company has determined that its interests and ORS has determined that the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of water and sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to earn a reasonable rate of return.

1. The Parties agree that no documentary evidence will be offered in the proceeding by the Parties other than: (1) the Application filed by the Company, (2) the exhibits to the testimony referenced in paragraph 2 below, and (3) this Settlement Agreement with Exhibits "A"- "E" attached hereto.

2. The Parties stipulate and agree to include in the hearing record of this case the pre-filed direct testimonies of Willie J. Morgan, Lena Sunardio and Bruce T. Haas, including all exhibits attached to said pre-filed testimonies, without objection, change, amendment, or cross-

examination. The Parties also stipulate and agree to include in the hearing record of this case without objection, change, amendment, or cross-examination the portion of the pre-filed rebuttal testimony of Bruce T. Haas attached hereto as Exhibit "A" and the testimony of Daniel Sullivan containing Revised Audit Exhibits DS-1 through DS-11 attached hereto as Exhibit "B". Further, the parties agree to include in the hearing record of this case without objection, change, amendment, or cross examination the Settlement testimony of witnesses B. R. Skelton, PhD. and Converse A. Chellis, III, CPA, attached hereto and incorporated herein by this reference as Exhibits "C" and "D".

3. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached to the testimony of Daniel Sullivan filed as Exhibit "B" hereto fairly and reasonably set forth the Company's operating expenses, pro forma adjustments, depreciation rates, rate base, return on equity at an agreed upon rate of 9.40%, revenue requirement, and rate of return on rate base.

4. The Parties stipulate and agree that the rate schedule attached hereto as Exhibit "E", including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its water and sewer customers at rates and terms and conditions of service that are fair, just and reasonable and the opportunity to recover the revenue required to earn a fair return on its investment..

5. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:



. . . 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

6. In its Application, the Company requested an increase in annual revenues of \$196,542. As a compromise to their respective positions, the Parties stipulate and agree to an increase in annual revenues of \$59,619, said increase to be based upon the adjustments reflected in Exhibit "B" and the return on equity stipulated to by the Parties in Paragraph 7 below.

7. The Company and ORS recognize the value of resolving this proceeding by settlement rather than by litigation and, therefore stipulate and agree for purposes of settlement in this case that a return on equity of 9.40% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.

8. The Parties further stipulate and agree that the stipulated testimony of record, the Application, and this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments and depreciation rates shown in Revised Audit Exhibits DS-1 through DS-11 of Exhibit "B" hereto are fair and reasonable and should be

adopted by the Commission for ratemaking and reporting purposes; (ii) a return on common equity of 9.40 %, which yields a fair rate of return on rate base for the Company of 7.64%, an operating margin of 6.95%, and an annual increase in revenues of approximately \$59,619, is fair, just, and reasonable when considered as a part of this stipulation and settlement agreement in its entirety; (iii) TCWS's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of water sewer and sewer service, and (iv) TCWS's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and reasonable and should be adopted by the Commission for service rendered by the Company on and after October 3, 2006.

9. The Parties further agree and stipulate that the rate schedule attached hereto as Exhibit "E", including the rates and charges and the terms and conditions set forth therein, are just and reasonable, reasonably designed, and should be approved and adopted by the Commission.

10. TCWS agrees and stipulates that it will file with the Commission a performance bond for water service in the amount of \$300,000 and a performance bond for sewer service in the amount of \$350,000 by December 31, 2006. TCWS further agrees and stipulates that it will, no later than December 31, 2006, deliver to the State of South Carolina the sum of \$10,822.92 pursuant to the terms of the South Carolina Uniform Unclaimed Property Act, which sum represents the balance of refund monies posted to inactive accounts per Order Nos. 1999-191, 1999-457 and 1999-733 in TCWS's last rate case.

11. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

12. The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments made or positions held in other proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

13. This Settlement Agreement shall be interpreted according to South Carolina law.

14. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement

and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

Docket No. 2006-97-WS

Order No. 2006-582

October 9, 2006

WE AGREE:

**Representing the South Carolina Office of Regulatory Staff**

*Wendy B. Cartledge*

Wendy B. Cartledge, Esquire

Jeffrey M. Nelson, Esquire

**S.C. Office of Regulatory Staff**

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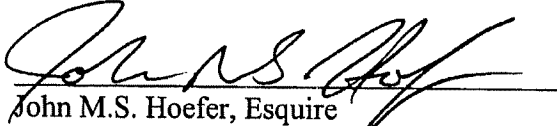
Docket No. 2006-97-WS

Order No. 2006-582

October 9, 2006

WE AGREE:

**Representing Tega Cay Water Service, Inc.**

A handwritten signature in black ink, appearing to read "John M.S. Hofer", is written over a horizontal line.

John M.S. Hofer, Esquire

**Willoughby & Hofer, P.A.**

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**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2006-97-WS**

IN RE:

Application of Tega Cay Water  
Service, Inc. for adjustment of  
rates and charges and modifications to  
certain terms and conditions for the  
provision of water and sewer service.

**REBUTTAL TESTIMONY**  
**OF**  
**BRUCE T. HAAS**

1   **Q.    ARE YOU THE SAME BRUCE T. HAAS THAT HAS PREFILED DIRECT**  
2       **TESTIMONY IN THIS CASE?**

3   **A.    Yes, I am.**

5   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
6       **PROCEEDING, MR. HAAS?**

7   **A.    The purpose of my rebuttal testimony is to respond on behalf of Tega Cay Water Service,**  
8       **Inc., or "TCWS", to some of the specific and general comments our customers made**  
9       **during the night hearing in this matter.**

10

11 **Q.    WHAT CUSTOMER CONCERNS EXPRESSED AT THE NIGHT HEARING DO**  
12 **YOU WISH TO RESPOND TO, MR. HAAS?**

13 **A.    Two of our customers complained of recent incidences of low water pressure. The**  
14 **reason these customers experienced low pressure was that the Company took its elevated**

1 storage facility off-line so that it could be painted. While we do regret the inconvenience,  
2 the painting was necessary to maintain the system.

3 Two of our customers complained about faulty meter readings and inconsistent billing  
4 dates. There were in fact occasions during the test year when personnel employed by our  
5 contract meter reader did not perform their duties in a timely and proper manner. At the  
6 Company's behest, our contractor discharged its personnel who were responsible and I  
7 believe the problem has been resolved. Of course, we have adjusted the bills of  
8 customers who were affected by erroneous meter readings and regret the inconvenience  
9 that it caused.

10  
11 Three of our customers complained about water clarity or particles. As the Commission  
12 is aware, the Company purchases bulk water from York County. Occasionally, line  
13 flushing can introduce particles which create an unpleasant appearance that cannot be  
14 avoided. Our water meets all DHEC and EPA standards for consumption. Whenever a  
15 customer complains about the appearance of the water and we have not been flushing  
16 lines, we do investigate.

17  
18 Two of our customers complained about sanitary sewer overflows, or SSOs. One  
19 customer stated that the Company had thirteen SSOs in an eighteen month period and  
20 asserted that York County only had 5 SSOs and Fort Mill none during that same period.  
21 This customer also suggested that the SSOs were endangering the health of residents. I  
22 would like to address these issues by explaining to the Commission what constitutes an



1 SSO, how DHEC regulates them, and why the comparisons made are not valid. An SSO  
2 occurs whenever there is an unauthorized discharge of wastewater. These can occur from  
3 lift stations, manholes or mains. However, an SSO is only required to be reported to  
4 DHEC in one of two circumstances, which are when the discharge exceeds five hundred  
5 gallons or when the discharge reaches a stream or other body of water. As the  
6 Commission may have noticed when it visited Tega Cay for the night hearing, the  
7 topography is very hilly and the property is situated on the shores of Lake Wylie. The  
8 majority of the Company's main sewer lines and lift stations are located between the  
9 residences and the shore lines. Accordingly, whenever an overflow occurs, there is a  
10 good chance that the wastewater will reach the lake, resulting in a reportable discharge.  
11 Based upon my knowledge of York County, neither the York County nor Fort Mill  
12 systems have such proximity to a stream or other body of water. In fact, the customer  
13 testifying on this point stated that York County's spills were from a force main on  
14 Highway 49 and one in a residential development the County serves located some  
15 distance from the lake. Additionally, although York County has a larger number of lift  
16 stations than does TCWS, they are not concentrated in a single, hilly area like the lift  
17 stations serving Tega Cay which makes immediate access for repairs difficult. So, I do  
18 not believe that the comparison this customer seeks to draw is valid. With respect to the  
19 putative health issues, I would note that none of these SSOs resulted in a fine of the  
20 Company by DHEC. As this customer noted, ten of the thirteen SSOs were caused by  
21 line blockages. Most of these were a combination of roots or grease. Grease collection  
22 and root intrusion into lines are usually not discovered until an SSO occurs unless it is

1           revealed in the course of television inspection of our lines. We try to televise 10% of our  
2           lines every year. Regarding our alarm systems for overflows, we have installed telemetry  
3           devices at our lift stations to supplement the audible and visual alarms. And, as one of the  
4           customers noted, we have instituted a voice reach program that contacts customers  
5           telephonically to alert them whenever there is a problem on the system and that program  
6           is working.

7

8   **Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9   **A.    Yes, it does.**

**THE OFFICE OF REGULATORY STAFF**  
**SETTLEMENT TESTIMONY**  
**OF**  
**DANIEL F. SULLIVAN**



**DOCKET NO. 2006-97-W/S**  
**APPLICATION OF**  
**TEGA CAY WATER SERVICE, INC.**  
**FOR ADJUSTMENT OF RATES AND CHARGES**

1

2

**SETTLEMENT TESTIMONY OF DANIEL F. SULLIVAN**

3

**FOR**

4

**THE OFFICE OF REGULATORY STAFF**

5

**DOCKET NO. 2006-97-W/S**

6

**IN RE: TEGA CAY WATER SERVICE, INC.**

7

8 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

9 A. My name is Daniel F. Sullivan. My business address is 1441 Main Street, Suite 300,  
10 Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff  
11 (“ORS”) as an Auditor.

12 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR**  
13 **BUSINESS EXPERIENCE.**

14 A. I received a B.S. Degree in Business Administration, with a major in Accounting  
15 from the University of South Carolina in December 1998. From February 1999 to  
16 February 2005, I was employed with the South Carolina State Auditor’s Office. In  
17 that capacity, I performed audits and reviews of cost reports filed by institutional  
18 providers of Medicaid services for the South Carolina Department of Health and  
19 Human Services. The primary purpose of those audits and reviews was to establish  
20 the applicable reimbursement rates to be paid to Medicaid providers for services  
21 rendered to qualified Medicaid recipients. In February 2005, I began my  
22 employment with ORS.

---

**THE OFFICE OF REGULATORY STAFF**  
**1441 Main Street, Suite 300, Columbia, SC 29201**  
**Post Office Box 11263, Columbia, SC 29211**

1   **Q.   WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY**  
2       **INVOLVING TEGA CAY WATER SERVICE, INC?**

3   A.   The purpose of my settlement testimony is to set forth the adjustments agreed upon  
4       in the settlement agreement by ORS and Tega Cay Water Service, Inc. ("TCWS") in  
5       this docket.

6   **Q.   PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**  
7       **SETTLEMENT TESTIMONY.**

8   A.   I have attached ORS's Settlement Audit Exhibits DFS-1 through DFS-11. The  
9       Settlement Audit Exhibits were either prepared by me or were prepared under my  
10      direction and supervision in compliance with recognized accounting and regulatory  
11      procedures for water and wastewater utility rate cases.

12  **Q.   PLEASE EXPLAIN THE CONTENTS OF THE REVISED AUDIT**  
13      **EXHIBITS.**

14  A.   The Settlement Audit Exhibits reflect a return on equity (ROE) of 9.40% and a return  
15      on rate base of 7.64%. As part of the settlement, the Company agreed to accept  
16      ORS's adjustments, as reflected in the attached Settlement Audit Exhibits, including  
17      the removal of the plant acquisition adjustment (PAA) from TCWS rate base  
18      (Adjustment #6) and from the calculation of net income for return through  
19      amortization of the PAA (Adjustment #21). Additionally, as part of the settlement,  
20      the Company agreed to the exclusion of the 4% salary increase requested by TCWS.

21  **Q:   WHAT IS THE DOLLAR AMOUNT OF THE INCREASE PROPOSED BY**  
22      **THE SETTLEMENT AGREEMENT?**

1    A:    The Company requested an increase in annual net operating revenues of \$196,542 in  
2           its application. As a compromise, ORS and the Company agree to an increase in  
3           annual net operating revenues of \$59,619. This amount is approximately one-third of  
4           the requested increase.

5    **Q.    DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

6    A.    Yes, it does.

7

## Settlement Audit Exhibit DFS-1

**Tega Cay Water Service, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended September 30, 2005**  
**Combined Operations**

<u>Description</u>	(1) Per Company Books \$	(2) Additional Adjustments Docket No. 1996-137-WS \$	(3) Adjusted Per Books \$	(4) Accounting and Pro Forma Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
<b><u>Operating Revenues:</u></b>							
Service Revenue - Water	346,686	0	346,686	132 (H)	346,818	1,201 (X)	348,019
Service Revenue - Sewer	600,216	0	600,216	1,734 (H)	601,950	58,615 (X)	660,565
Miscellaneous Revenues	14,148	0	14,148	0	14,148	0	14,148
Uncollectible Accounts	(3,158)	0	(3,158)	0	(3,158)	(197) (Y)	(3,355)
					0		
<b>Total Operating Revenues</b>	<b>957,892</b>	<b>0</b>	<b>957,892</b>	<b>1,866</b>	<b>959,758</b>	<b>59,619</b>	<b>1,019,377</b>
<b><u>Operating Expenses:</u></b>							
Maintenance Expenses	388,252	0	388,252	3,214 (I)	391,466	0	391,466
General Expenses	186,382	0	186,382	56,164 (J)	242,546	0	242,546
Depreciation Expense	245,264	0	245,264	(35,738) (K)	209,526	0	209,526
Taxes Other Than Income	206,869	(3,000) (A)	203,869	(81,629) (L)	122,240	673 (Z)	122,913
Income Taxes - State	1,338	958 (B)	2,296	364 (M)	2,660	2,947 (AA)	5,607
Income Taxes - Federal	58,992	(43,724) (C)	15,268	2,420 (N)	17,688	19,600 (AB)	37,288
Amortization of PAA	0	0	0	0 (O)	0	0	0
Amortization of CIAC	(171,782)	0	(171,782)	42,642 (P)	(129,140)	0	(129,140)
<b>Total Operating Expenses</b>	<b>915,315</b>	<b>(45,766)</b>	<b>869,549</b>	<b>(12,563)</b>	<b>856,986</b>	<b>23,221</b>	<b>880,207</b>
<b>Total Operating Income</b>	<b>42,577</b>	<b>45,766</b>	<b>88,343</b>	<b>14,429</b>	<b>102,772</b>	<b>36,398</b>	<b>139,170</b>
Interest During Construction	80	0	80	(80) (Q)	0	0	0
Customer Growth	0	0	0	1,207 (R)	1,207	429 (AC)	1,636
<b>Net Income for Return</b>	<b>42,657</b>	<b>45,766</b>	<b>88,423</b>	<b>15,556</b>	<b>103,979</b>	<b>36,827</b>	<b>140,806</b>
<b><u>Original Cost Rate Base:</u></b>							
Gross Plant in Service	12,042,383	(352,044) (D)	11,690,339	242,356 (S)	11,932,695	0	11,932,695
Accumulated Depreciation	(2,911,225)	90,318 (E)	(2,820,907)	54,657 (T)	(2,766,250)	0	(2,766,250)
					0		
Net Plant in Service	9,131,158	(261,726)	8,869,432	297,013	9,166,445	0	9,166,445
Cash Working Capital	71,830	0	71,830	7,422 (U)	79,252	0	79,252
Contributions in Aid of Construction	(6,815,144)	0	(6,815,144)	(42,642) (V)	(6,857,786)	0	(6,857,786)
Accumulated Deferred Income Taxes	(504,319)	0	(504,319)	0	(504,319)	0	(504,319)
Customer Deposits	(58,630)	0	(58,630)	0	(58,630)	0	(58,630)
Plant Acquisition Adjustment	284,833	(284,833) (F)	0	0	0	0	0
Water Service Corporation - Rate Base	17,871	0	17,871	0	17,871	0	17,871
					0		
<b>Total Rate Base</b>	<b>2,127,599</b>	<b>(546,559)</b>	<b>1,581,040</b>	<b>261,793</b>	<b>1,842,833</b>	<b>0</b>	<b>1,842,833</b>
<b>Return on Rate Base</b>	<b>2.00%</b>		<b>5.59%</b>		<b>5.64%</b>		<b>7.64%</b>
<b>Interest Expense</b>	<b>167,102</b>	<b>(107,114) (G)</b>	<b>59,988</b>	<b>9,933 (W)</b>	<b>69,921</b>		<b>69,921</b>

## Settlement Audit Exhibit DFS-2

**Tega Cay Water Service, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended September 30, 2005**  
**Water Operations**

Description	(1) Per Company Books \$	(2) Additional Adjustments Docket No. 1996-137-WS \$	(3) Adjusted Per Books \$	(4) Accounting and Pro Forma Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
<b>Operating Revenues:</b>							
Service Revenue - Water	346,686	0	346,686	132 (H)	346,818	1,201 (X)	348,019
Miscellaneous Revenues	6,343	0	6,343	0	6,343	0	6,343
Uncollectible Accounts	(1,146)	0	(1,146)	0	(1,146)	(4) (Y)	(1,150)
<b>Total Operating Revenues</b>	<b>351,883</b>	<b>0</b>	<b>351,883</b>	<b>132</b>	<b>352,015</b>	<b>1,197</b>	<b>353,212</b>
<b>Operating Expenses:</b>							
Maintenance Expenses	111,285	0	111,285	1,658 (I)	112,943	0	112,943
General Expenses	96,192	0	96,192	28,535 (J)	124,727	0	124,727
Depreciation Expense	64,638	0	64,638	2,374 (K)	67,012	0	67,012
Taxes Other Than Income	105,160	(3,000) (A)	102,160	(42,129) (L)	60,031	14 (Z)	60,045
Income Taxes - State	486	409 (B)	895	(80) (M)	815	59 (AA)	874
Income Taxes - Federal	21,408	(15,454) (C)	5,954	(537) (N)	5,417	394 (AB)	5,811
Amortization of PAA	0	0	0	0 (O)	0	0	0
Amortization of CIAC	(42,344)	0	(42,344)	10,485 (P)	(31,859)	0	(31,859)
<b>Total Operating Expenses</b>	<b>356,825</b>	<b>(18,045)</b>	<b>338,780</b>	<b>306</b>	<b>339,086</b>	<b>466</b>	<b>339,552</b>
<b>Total Operating Income</b>	<b>(4,942)</b>	<b>18,045</b>	<b>13,103</b>	<b>(174)</b>	<b>12,929</b>	<b>731</b>	<b>13,660</b>
Interest During Construction	20	0	20	(20) (Q)	0	0	0
Customer Growth	0	0	0	147 (R)	147	8 (AC)	155
<b>Net Income for Return</b>	<b>(4,922)</b>	<b>18,045</b>	<b>13,123</b>	<b>(47)</b>	<b>13,076</b>	<b>739</b>	<b>13,815</b>
<b>Original Cost Rate Base:</b>							
Gross Plant in Service	3,003,103	(352,044) (D)	2,651,059	22,926 (S)	2,673,985	0	2,673,985
Accumulated Depreciation	(731,857)	90,318 (E)	(641,539)	5,470 (T)	(636,069)	0	(636,069)
Net Plant in Service	2,271,246	(261,726)	2,009,520	28,396	2,037,916	0	2,037,916
Cash Working Capital	25,935	0	25,935	3,774 (U)	29,709	0	29,709
Contributions in Aid of Construction	(1,686,534)	0	(1,686,534)	(10,485) (V)	(1,697,019)	0	(1,697,019)
Accumulated Deferred Income Taxes	(273,990)	0	(273,990)	0	(273,990)	0	(273,990)
Customer Deposits	(30,259)	0	(30,259)	0	(30,259)	0	(30,259)
Plant Acquisition Adjustment	39,157	(39,157) (F)	0	0	0	0	0
Water Service Corporation - Rate Base	9,223	0	9,223	0	9,223	0	9,223
<b>Total Rate Base</b>	<b>354,778</b>	<b>(300,883)</b>	<b>53,895</b>	<b>21,685</b>	<b>75,580</b>	<b>0</b>	<b>75,580</b>
<b>Return on Rate Base</b>	<b>-1.39%</b>		<b>24.35%</b>		<b>17.30%</b>		<b>18.28%</b>
<b>Interest Expense</b>	<b>41,993</b>	<b>(39,948) (G)</b>	<b>2,045</b>	<b>823 (W)</b>	<b>2,868</b>		<b>2,868</b>



## Settlement Audit Exhibit DFS-3

**Tega Cay Water Service, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended September 30, 2005**  
**Sewer Operations**

<u>Description</u>	(1) <u>Per Company Books</u> \$	(2) <u>Additional Adjustments Docket No. 1996-137-WS</u> \$	(3) <u>Adjusted Per Books</u> \$	(4) <u>Accounting and Pro Forma Adjustments</u> \$	(5) <u>As Adjusted Present</u> \$	(6) <u>Proposed Increase</u> \$	(7) <u>After Proposed Increase</u> \$
<b><u>Operating Revenues:</u></b>							
Service Revenue - Sewer	600,216	0	600,216	1,734 (H)	601,950	58,615 (X)	660,565
Miscellaneous Revenues	7,805	0	7,805	0	7,805	0	7,805
Uncollectible Accounts	(2,012)	0	(2,012)	0	(2,012)	(193) (Y)	(2,205)
<b><u>Total Operating Revenues</u></b>	<b><u>606,009</u></b>	<b><u>0</u></b>	<b><u>606,009</u></b>	<b><u>1,734</u></b>	<b><u>607,743</u></b>	<b><u>58,422</u></b>	<b><u>666,165</u></b>
<b><u>Operating Expenses:</u></b>							
Maintenance Expenses	276,967	0	276,967	1,556 (I)	278,523	0	278,523
General Expenses	90,190	0	90,190	27,629 (J)	117,819	0	117,819
Depreciation Expense	180,626	0	180,626	(38,112) (K)	142,514	0	142,514
Taxes Other Than Income	101,709	0 (A)	101,709	(39,500) (L)	62,209	660 (Z)	62,869
Income Taxes - State	852	549 (B)	1,401	444 (M)	1,845	2,888 (AA)	4,733
Income Taxes - Federal	37,584	(28,270) (C)	9,314	2,957 (N)	12,271	19,206 (AB)	31,477
Amortization of PAA	0	0	0	0 (O)	0	0	0
Amortization of CIAC	(129,438)	0	(129,438)	32,157 (P)	(97,281)	0	(97,281)
<b><u>Total Operating Expenses</u></b>	<b><u>558,490</u></b>	<b><u>(27,721)</u></b>	<b><u>530,769</u></b>	<b><u>(12,869)</u></b>	<b><u>517,900</u></b>	<b><u>22,754</u></b>	<b><u>540,654</u></b>
<b><u>Total Operating Income</u></b>	<b><u>47,519</u></b>	<b><u>27,721</u></b>	<b><u>75,240</u></b>	<b><u>14,603</u></b>	<b><u>89,843</u></b>	<b><u>35,668</u></b>	<b><u>125,511</u></b>
Interest During Construction	60	0	60	(60) (Q)	0	0	0
Customer Growth	0	0	0	1,060 (R)	1,060	421 (AC)	1,481
<b><u>Net Income for Return</u></b>	<b><u>47,579</u></b>	<b><u>27,721</u></b>	<b><u>75,300</u></b>	<b><u>15,603</u></b>	<b><u>90,903</u></b>	<b><u>36,089</u></b>	<b><u>126,992</u></b>
<b><u>Original Cost Rate Base:</u></b>							
Gross Plant in Service	9,039,280	0 (D)	9,039,280	219,430 (S)	9,258,710	0	9,258,710
Accumulated Depreciation	(2,179,368)	0 (E)	(2,179,368)	49,187 (T)	(2,130,181)	0	(2,130,181)
Net Plant in Service	6,859,912	0	6,859,912	268,617	7,128,529	0	7,128,529
Cash Working Capital	45,895	0	45,895	3,648 (U)	49,543	0	49,543
Contributions in Aid of Construction	(5,128,610)	0	(5,128,610)	(32,157) (V)	(5,160,767)	0	(5,160,767)
Accumulated Deferred Income Taxes	(230,329)	0	(230,329)	0	(230,329)	0	(230,329)
Customer Deposits	(28,371)	0	(28,371)	0	(28,371)	0	(28,371)
Plant Acquisition Adjustment	245,676	(245,676) (F)	0	0	0	0	0
Water Service Corporation - Rate Base	8,648	0	8,648	0	8,648	0	8,648
<b><u>Total Rate Base</u></b>	<b><u>1,772,821</u></b>	<b><u>(245,676)</u></b>	<b><u>1,527,145</u></b>	<b><u>240,108</u></b>	<b><u>1,767,253</u></b>	<b><u>0</u></b>	<b><u>1,767,253</u></b>
<b><u>Return on Rate Base</u></b>	<b><u>2.68%</u></b>		<b><u>4.93%</u></b>		<b><u>5.14%</u></b>		<b><u>7.19%</u></b>
<b><u>Interest Expense</u></b>	<b><u>125,109</u></b>	<b><u>(67,166) (G)</u></b>	<b><u>57,943</u></b>	<b><u>9,110 (W)</u></b>	<b><u>67,053</u></b>		<b><u>67,053</u></b>

**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<b><u>Adjustments From Docket No. 1996-137-WS</u></b>			
<b><u>(A) Taxes Other Than Income</u></b>			
1 ORS proposes to remove property taxes associated with wells no longer used and useful.			
Per ORS	(3,000)	(3,000)	0
Per TCWS	0	0	0
<b><u>(B) Income Taxes - State</u></b>			
2 ORS proposes to adjust for state income taxes due to the adjustments from Docket No. 1996-137-WS.			
Per ORS	958	409	549
Per TCWS	0	0	0
<b><u>(C) Income Taxes - Federal</u></b>			
3 ORS propose to adjust for federal income taxes due to the adjustments from Docket No. 1996-137-WS.			
Per ORS	(43,724)	(15,454)	(28,270)
Per TCWS	0	0	0
<b><u>(D) Gross Plant In Service</u></b>			
4 ORS and TCWS propose to adjust plant in service by (\$352,044) for the removal of wells deemed not used and useful.			
Per ORS	(352,044)	(352,044)	0
Per TCWS	(352,044)	(352,044)	0
<b><u>(E) Accumulated Depreciation</u></b>			
5 ORS and TCWS propose to adjust accumulated depreciation by \$90,318 for the removal of wells deemed not used and useful.			
Per ORS	90,318	90,318	0
Per TCWS	90,318	90,318	0

**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<b><u>(F) Plant Acquisition Adjustment</u></b>			
6 ORS proposes to remove the plant acquisition adjustment since it was removed by staff and TCWS and approved by the PSC in the previous rate case proceeding.			
Per ORS	<u>(284,833)</u>	<u>(39,157)</u>	<u>(245,676)</u>
Per TCWS	<u>0</u>	<u>0</u>	<u>0</u>
<b><u>(G) Interest on Debt</u></b>			
7 ORS proposes to adjust interest on debt using a 59.10% / 40.90% debt / equity ratio and a 6.42% cost of debt. ORS proposes to compute allowable interest expense as adjusted per books.			
Per ORS	<u>(107,114)</u>	<u>(39,948)</u>	<u>(67,166)</u>
Per TCWS	<u>0</u>	<u>0</u>	<u>0</u>
<b><u>Accounting and Pro Forma Adjustments</u></b>			
<b><u>(H) Operating Revenues</u></b>			
8 ORS and TCWS propose to adjust test year operating revenues to agree with test year consumption data.			
Per ORS	<u>1,866</u>	<u>132</u>	<u>1,734</u>
Per TCWS	<u>1,765</u>	<u>24</u>	<u>1,741</u>
<b><u>(I) Maintenance Expenses</u></b>			
9 ORS and TCWS propose to adjust operators' salaries. ORS proposes to annualize operators' salary expenses using wage rates as of May 2006 and wage allocation factors as of September 2005. ORS did not include a 4% cost of living increase since this amount was not known and measurable at the end of the audit. TCWS included a 4% cost of living increase.			
Per ORS	3,876	2,000	1,876
Per TCWS	11,183	5,770	5,413

**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
10 TCWS proposes to amortize deferred operations and maintenance charges over 5 years. ORS does not propose to amortize deferred operations and maintenance charges since projects were not started and expenses were not incurred during the test year.			
Per ORS	0	0	0
Per TCWS	24,960	24,960	0
11 ORS and TCWS propose to adjust operating expense charged to plant to reflect the proposed increase in the wage adjustment. ORS computed a factor of 12.53% using actual test year data. TCWS used a capitalization factor of 11.58% which was based on annualized wages.			
Per ORS	(662)	(342)	(320)
Per TCWS	310	160	150
<u>Total Maintenance Expenses</u>	<u>3,214</u>	<u>1,658</u>	<u>1,556</u>

**(J) General Expenses**

12 ORS and TCWS propose to adjust office salary expenses. ORS annualized salaries using wage rates as of May 2006 and wage allocations as of September 2005. ORS did not include a 4% cost of living increase since this amount was not known and measurable at the end of the audit. TCWS included a 4% cost of living increase.

Per ORS	8,561	4,418	4,143
Per TCWS	11,447	5,907	5,540

13 ORS and TCWS propose to include current rate case expenses amortized over a three-year period. ORS proposes to include TCWS's portion of the Utilities Inc. Management Audit costs amortized over a three-year period. ORS adjusted rate case expenses for actual documented expenses and also included \$3,808 in water and \$4,442 in sewer for the additional letters of credit.

Per ORS	46,196	23,391	22,805
Per TCWS	57,387	29,617	27,770

**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
14 ORS and TCWS propose to adjust for pension and other benefits associated with the wage increase.			
Per ORS	1,810	934	876
Per TCWS	(1,946)	(1,005)	(941)
15 ORS proposes to remove one half of Chamber of Commerce dues (\$260) and a 7 day personal newspaper subscription (\$143) to the Charlotte Observer, for total nonallowable expenses for ratemaking purposes of (\$403).			
Per ORS	(403)	(208)	(195)
Per TCWS	0	0	0
<b><u>Total General Expenses</u></b>	<b><u>56,164</u></b>	<b><u>28,535</u></b>	<b><u>27,629</u></b>
<b><u>(K) Depreciation Expense</u></b>			
16 TCWS proposes to annualize depreciation expense using estimated plant additions and a 1.5% depreciation rate. ORS proposes to annualize depreciation expense for known and measurable plant in service using a 1.5% depreciation rate. Both TCWS and ORS include extraordinary retirement of the wells as part of the adjustment to depreciation expense. See Settlement Audit Exhibit DFS-5 for details.			
Per ORS	<u>(35,738)</u>	<u>2,374</u>	<u>(38,112)</u>
Per TCWS	<u>(26,984)</u>	<u>8,945</u>	<u>(35,929)</u>
<b><u>(L) Taxes Other Than Income</u></b>			
17 ORS and TCWS propose to adjust for payroll taxes associated with the wage adjustment.			
Per ORS	(100)	(52)	(48)
Per TCWS	565	291	274
18 ORS and TCWS propose to remove a tax accrual for property taxes to reflect actual test year expense.			
Per ORS	(81,529)	(42,077)	(39,452)
Per TCWS	<u>(81,529)</u>	<u>(42,077)</u>	<u>(39,452)</u>
<b><u>Total Taxes Other Than Income</u></b>	<b><u>(81,629)</u></b>	<b><u>(42,129)</u></b>	<b><u>(39,500)</u></b>

**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<b><u>(M) Income Taxes - State - As Adjusted</u></b>			
19 ORS and TCWS propose to adjust state income taxes after accounting and pro forma adjustments. See Settlement Audit Exhibit DFS - 6.			
Per ORS	<u>364</u>	<u>(80)</u>	<u>444</u>
Per TCWS	<u>(2,585)</u>	<u>(2,266)</u>	<u>(319)</u>
<b><u>(N) Income Taxes - Federal - As Adjusted</u></b>			
20 ORS and TCWS propose to adjust federal income taxes after accounting and pro forma adjustments. See Settlement Audit Exhibit DFS - 6.			
Per ORS	<u>2,420</u>	<u>(537)</u>	<u>2,957</u>
Per TCWS	<u>(67,282)</u>	<u>(33,247)</u>	<u>(34,035)</u>
<b><u>(O) Amortization of Plant Acquisition Adjustment</u></b>			
21 TCWS proposes to include amortization expense of \$5,210 associated with a request for a plant acquisition adjustment. ORS does not propose an amortization adjustment since ORS proposes to remove the plant acquisition adjustment.			
Per ORS	<u>0</u>	<u>0</u>	<u>0</u>
Per TCWS	<u>5,210</u>	<u>716</u>	<u>4,494</u>
<b><u>(P) Amortization of Contributions in Aid of Construction (CIAC)</u></b>			
22 ORS and TCWS propose to annualize amortization of CIAC as of September 30, 2005. The purpose of this adjustment is to properly calculate amortization expense associated with CIAC. ORS and TCWS amortized CIAC using a 1.5% rate.			
Per ORS	<u>42,642</u>	<u>10,485</u>	<u>32,157</u>
Per TCWS	<u>45,369</u>	<u>11,394</u>	<u>33,975</u>

**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<b><u>(Q) Interest During Construction (IDC)</u></b>			
23 TCWS and ORS propose to eliminate IDC for rate making purposes. TCWS and ORS did not include construction work in progress in rate base and therefore IDC is eliminated as an addition to net income.			
Per ORS	(80)	(20)	(60)
Per TCWS	(80)	(20)	(60)
<b><u>(R) Customer Growth</u></b>			
24 ORS proposes to adjust for customer growth after accounting and pro forma adjustments. ORS used customer units as of June 2006, since plant additions have been included to that time period. See Settlement Audit Exhibit DFS -7.			
Per ORS	1,207	147	1,060
Per TCWS	0	0	0
<b><u>(S) Gross Plant In Service</u></b>			
25 ORS and TCWS propose to adjust for pro forma plant additions and retirements. TCWS adjustment is based on estimated general ledger additions, capitalized time additions and pro forma plant additions and retirements. ORS adjustment is based on known and measurable plant in service including general ledger additions, capitalized time additions and pro forma additions and retirements as of June 2006.			
Per ORS	241,694	22,584	219,110
Per TCWS	313,409	91,084	222,325
26 ORS proposes to capitalize wages, taxes, and benefits as a result of the payroll adjustment. ORS capitalized 12.53% of the wage adjustment.			
Per ORS	662	342	320
Per TCWS	0	0	0
<b><u>Total Gross Plant In Service</u></b>	<b>242,356</b>	<b>22,926</b>	<b>219,430</b>

**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<b><u>(T) Accumulated Depreciation</u></b>			
27 TCWS proposes to adjust accumulated depreciation using estimated plant additions and retirements. ORS proposes to reduce accumulated depreciation for the annualized depreciation expense adjustment of \$35,738 and actual retirements from October 2005 - June 2006 of \$18,919.			
Per ORS	54,657	5,470	49,187
Per TCWS	12,380	15,992	(3,612)
<b><u>(U) Cash Working Capital</u></b>			
28 TCWS and ORS propose to adjust cash working capital after accounting and pro forma adjustments. See Settlement Audit Exhibit DFS-8.			
Per ORS	7,422	3,774	3,648
Per TCWS	12,917	8,176	4,741
<b><u>(V) Contributions in Aid of Construction</u></b>			
29 ORS proposes to adjust contributions in aid of construction to reflect the difference in amortization using a 1.5% amortization rate versus a 2% amortization rate.			
Per ORS	(42,642)	(10,485)	(32,157)
Per TCWS	0	0	0
<b><u>(W) Interest Expense</u></b>			
30 ORS and TCWS propose to adjust interest on debt using a 59.10% / 40.90% debt / equity ratio and a 6.42% cost of debt. ORS proposes to compute allowable interest expense as adjusted present and after the proposed increase rate base. See Settlement Audit Exhibit DFS -9.			
Per ORS	9,933	823	9,110
Per TCWS	(83,468)	(34,091)	(49,377)



**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<b><u>(X) Operating Revenues - Proposed Increase</u></b>			
31 ORS and TCWS propose an increase in operating revenues.			
Per ORS	59,816	1,201	58,615
Per TCWS	197,199	52,368	144,831
<b><u>(Y) Uncollectible Accounts - Proposed Increase</u></b>			
32 ORS and TCWS propose to adjust uncollectible accounts expense for the proposed revenue using an uncollectible rate of .33% for water and sewer.			
Per ORS	(197)	(4)	(193)
Per TCWS	(657)	(173)	(484)
<b><u>(Z) Taxes Other Than Income - Proposed Increased</u></b>			
33 ORS and TCWS propose to adjust utility/commission tax (.0082524) and gross receipts taxes (.003) for the proposed revenue using a combined factor of .0112524.			
Per ORS	673	14	660
Per TCWS	2,215	588	1,627
<b><u>(AA) Income Taxes - State - Proposed Increase</u></b>			
34 TCWS records income taxes using current tax rates on calculated taxable income. ORS proposes to compute income taxes after the proposed increase.			
Per ORS	2,947	59	2,888
Per TCWS	9,716	2,580	7,136
<b><u>(AB) Income Taxes - Federal - Proposed Increase</u></b>			
35 TCWS records income taxes using current tax rates on calculated taxable income. ORS proposes to compute income taxes after the proposed increase.			
Per ORS	19,600	394	19,206
Per TCWS	64,614	17,159	47,455

**Tega Cay Water Service, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended September 30, 2005**

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<b>(AC) Customer Growth</b>			
36 ORS proposes to adjust customer growth for the effect of the proposed increase. ORS used customer units as of June 2006, since plant additions have been extended to that time period. See Settlement Audit Exhibit DFS -7.			
Per ORS	429	8	421
Per TCWS	0	0	0

## Settlement Audit Exhibit DFS-5

**Tega Cay Water Service, Inc.**  
**Depreciation Expense Adjustment**  
**Test Year Ended September 30, 2005**

	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>Gross Plant @ September 30, 2005</u>	12,042,383	3,003,103	9,039,280
<b>ADD:</b>			
Pro Forma Plant, Retirements, Capitalized Time and General Ledger Additions as of June 2006	242,356	22,926	219,430
<b>LESS:</b>			
Organization	(244,495)	(125,040)	(119,455)
Land	(8,989)	(1,869)	(7,120)
Vehicles	(97,606)	(50,374)	(47,232)
Wells	(352,044)	(352,044)	0
<b>Net Plant</b>	<b>11,581,605</b>	<b>2,496,702</b>	<b>9,084,903</b>
Plant Depreciation @ 1.5% (66.7 years)	173,725	37,451	136,274
Vehicles as of June 2006	97,606	50,374	47,232
<b>Less: Fully Depreciated Vehicles</b>	(61,529)	(31,755)	(29,774)
	36,077	18,619	17,458
Vehicle Depreciation @ 25% (4 years)	9,019	4,655	4,364
WSC Depreciation Allocation	2,792	1,441	1,351
Regional Office Depreciation Allocation	1,084	559	525
Extraordinary Retirement (Wells)	22,906	22,906	0
<b>Total Depreciation</b>	<b>209,526</b>	<b>67,012</b>	<b>142,514</b>
Less: Per Books Depreciation	245,264	64,638	180,626
<b>ORS Adjustment</b>	<b>(35,738)</b>	<b>2,374</b>	<b>(38,112)</b>
Company's Adjustment	(26,984)	8,945	(35,929)
<b>Contributions in Aid of Construction</b>			
CIAC @ September 30, 2005	(8,609,368)	(2,123,950)	(6,485,418)
Amortization %	1.50%	1.50%	1.50%
Amortization Amount	(129,141)	(31,859)	(97,281)
Per Book Amount	(171,782)	(42,344)	(129,438)
<b>ORS Adjustment</b>	<b>42,642</b>	<b>10,485</b>	<b>32,157</b>
Company's Adjustment	45,369	11,394	33,975

## Settlement Audit Exhibit DFS-6

**Tega Cay Water Service, Inc.**  
**Computation of Income Taxes**  
**For the Test Year Ended September 30, 2005**

	<b>As Adjusted - Per Books</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
Operating Revenue As Adjusted	957,892	351,883	606,009
Operating Expenses As Adjusted	851,985	331,931	520,054
Net Operating Income Before Taxes	105,907	19,952	85,955
Less: Annualized Interest Expense	59,988	2,045	57,943
Taxable Income - State	45,919	17,907	28,012
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	2,296	895	1,401
Less: State Income Taxes Per Book	1,338	486	852
Adjustment to State Income Taxes	958	409	549
Taxable Income - Federal	43,623	17,012	26,611
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	15,268	5,954	9,314
Less: Federal Income Taxes Per Book	58,992	21,408	37,584
Adjustment to Federal Income Taxes	(43,724)	(15,454)	(28,270)

	<b>As Adjusted - Present</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
Operating Revenue As Adjusted	959,758	352,015	607,743
Operating Expenses As Adjusted	836,638	332,854	503,784
Net Operating Income Before Taxes	123,120	19,161	103,959
Less: Annualized Interest Expense	69,921	2,868	67,053
Taxable Income - State	53,199	16,293	36,906
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	2,660	815	1,845
Less: State Income Taxes As Adjusted Per Book	2,296	895	1,401
Adjustment to State Income Taxes	364	(80)	444
Taxable Income - Federal	50,539	15,478	35,061
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	17,688	5,417	12,271
Less: Federal Income Taxes As Adjusted Per Book	15,268	5,954	9,314
Adjustment to Federal Income Taxes	2,420	(537)	2,957

Docket No. 2006-97-WS

Order No. 2006-582

October 9, 2006

**Settlement Audit Exhibit DFS-6**

**Tega Cay Water Service, Inc.  
Computation of Income Taxes  
For the Test Year Ended September 30, 2005**

## Settlement Audit Exhibit DFS-6

**Tega Cay Water Service, Inc.**  
**Computation of Income Taxes**  
**For the Test Year Ended September 30, 2005**

	<b>After Proposed Increase</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
Operating Revenue After Proposed Increase	1,019,377	353,212	666,165
Operating Expenses After Proposed Increase	837,311	332,868	504,444
Net Operating Income Before Taxes	182,066	20,344	161,721
Less: Annualized Interest Expense	69,921	2,868	67,053
Taxable Income - State	112,145	17,476	94,668
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	5,607	874	4,733
Less: State Income Taxes As Adjusted - Present	2,660	815	1,845
Adjustment to State Income Taxes	2,947	59	2,888
Taxable Income - Federal	106,538	16,603	89,935
Federal Income Taxes %	35.0%	35.0%	35.0%
Federal Income Taxes	37,288	5,811	31,477
Less: Federal Income Taxes As Adjusted - Present	17,688	5,417	12,271
Adjustment to Federal Income Taxes	19,600	394	19,206

## Settlement Audit Exhibit DFS-7

**Tega Cay Water Service, Inc.**  
**Customer Growth Computation**  
**Test Year Ended September 30, 2005**

<u>Combined Operations:</u>	(1) As Adjusted Present	(2) Effect of Proposed Increase	(3) After Increase
Description	\$	\$	\$
Water Customer Growth	147	8	156
Sewer Customer Growth	1,060	421	1,481
Combined Customer Growth	1,207	429	1,637

Number of Customer Units:

Beginning	3,407	<b>Formula:</b>		
Ending	3,487	Ending - Average	=	40
Average	3,447	Average	=	1.16%

Water Operations:

Total Operating Income	12,929	731	13,660
Growth Factor	1.14%	1.14%	1.14%
Customer Growth	147	8	156

Number of Customer Units:

Beginning	1,738	<b>Formula:</b>		
Ending	1,778	Ending - Average	=	20
Average	1,758	Average	=	1.14%

Sewer Operations:

Total Operating Income	89,843	35,668	125,511
Growth Factor	1.18%	1.18%	1.18%
Customer Growth	1,060	421	1,481

Number of Customer Units:

Beginning	1,669	<b>Formula:</b>		
Ending	1,709	Ending - Average	=	20
Average	1,689	Average	=	1.18%

**Note:** Combined Customer Growth equals Water plus Sewer Customer Growth

Beginning Customer Units @ 10/2004

Ending Customer Units @ 6/2006

## Settlement Audit Exhibit DFS-8

**Tega Cay Water Service, Inc.**  
**Cash Working Capital Allowance**  
**For the Test Year Ended September 30, 2005**

	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
Maintenance Expenses - As Adjusted	391,466	112,943	278,523
General Expenses - As Adjusted	<u>242,546</u>	<u>124,727</u>	<u>117,819</u>
Total Expenses for Computation	634,012	237,670	396,342
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital - As Adjusted	79,252	29,709	49,543
Cash Working Capital - Per Books	<u>71,830</u>	<u>25,935</u>	<u>45,895</u>
<b>Cash Working Capital Adjustment - ORS</b>	<b><u>7,422</u></b>	<b><u>3,774</u></b>	<b><u>3,648</u></b>
Cash Working Capital Adjustment - CWS	<u>12,917</u>	<u>8,176</u>	<u>4,741</u>



**Tega Cay Water Service, Inc.**  
**Return on Common Equity**  
**Capital Structure at September 30, 2005**

Description	Capital Structure	Combined					After Proposed Increase				
		As Adjusted--Present		Income		Ratio	Rate		Embedded		Income For Return
		Cost/Return	Overall	For	Return		Base	%	Cost/Return	Overall	
		%	%	\$	%		\$	%	%	%	\$
Long-Term Debt	136,789,585	59.10%	3.79%	69,922	3.79%		1,089,114	6.42%	6.42%	3.79%	69,922
Common Equity	94,651,855	40.90%	1.86%	34,057	1.86%		753,719	9.40%	9.40%	3.85%	70,884
Totals	231,441,440	100.00%	5.65%	103,979	5.65%		1,842,833			7.64%	140,806

Description	Capital Structure	Water					After Proposed Increase				
		As Adjusted--Present		Income		Ratio	Rate		Embedded		Income For Return
		Cost/Return	Overall	For	Return		Base	%	Cost/Return	Overall	
		%	%	\$	%		\$	%	%	%	\$
Long-Term Debt	136,789,585	59.10%	3.79%	2,868	3.79%		44,668	6.42%	6.42%	3.79%	2,868
Common Equity	94,651,855	40.90%	13.51%	10,208	13.51%		30,912	35.41%	35.41%	14.48%	10,947
Totals	231,441,440	100.00%	17.30%	13,076	17.30%		75,580			18.27%	13,815

Description	Capital Structure	Sewer					After Proposed Increase				
		As Adjusted--Present		Income		Ratio	Rate		Embedded		Income For Return
		Cost/Return	Overall	For	Return		Base	%	Cost/Return	Overall	
		%	%	\$	%		\$	%	%	%	\$
Long-Term Debt	136,789,585	59.10%	3.79%	67,053	3.79%		1,044,447	6.42%	6.42%	3.79%	67,053
Common Equity	94,651,855	40.90%	1.35%	23,850	1.35%		722,806	8.29%	8.29%	3.39%	59,939
Totals	231,441,440	100.00%	5.14%	90,903	5.14%		1,767,253			7.18%	126,992

## Settlement Audit Exhibit DFS-9

**Note:** ORS used Capital Structure of Parent Company @ 9/30/2005.

## Settlement Audit Exhibit DFS-10

**Tega Cay Water Service, Inc.**  
**Income Statement**  
**Test Year Ended September 30, 2005**

	Combined	Water	Sewer
	\$	\$	\$
<b><u>Operating Revenues</u></b>			
Service Revenues - Water	346,686	346,686	0
Service Revenues - Sewer	600,216	0	600,216
Miscellaneous Revenues	14,148	6,343	7,805
Uncollectible Accounts	(3,158)	(1,146)	(2,012)
<b><u>Total Operating Revenues</u></b>	<u>957,892</u>	<u>351,883</u>	<u>606,009</u>
<b><u>Maintenance Expenses</u></b>			
Salaries and Wages	113,404	58,528	54,876
Purchased Power	51,569	14,361	37,208
Purchased Sewer & Water	(1,196)	(1,196)	0
Maintenance and Repair	189,535	20,422	169,113
Maintenance Testing	10,589	1,719	8,870
Meter Reading	10,091	10,091	0
Chemicals	14,669	7,571	7,098
Transportation	11,750	6,064	5,686
Operating Exp. Charged to Plant	(17,958)	(9,268)	(8,690)
Outside Services - Other	5,799	2,993	2,806
<b><u>Total</u></b>	<u>388,252</u>	<u>111,285</u>	<u>276,967</u>
<b><u>General Expenses</u></b>			
Salaries and Wages	52,865	27,284	25,581
Office Supplies & Other Office Exp.	20,422	10,540	9,882
Regulatory Commission Exp.	0	0	0
Pension & Other Benefits	31,858	16,442	15,416
Rent	4,466	2,305	2,161
Insurance	61,148	31,558	29,590
Office Utilities	9,165	4,730	4,435
Miscellaneous	6,458	3,333	3,125
<b><u>Total</u></b>	<u>186,382</u>	<u>96,192</u>	<u>90,190</u>
Depreciation	245,264	64,638	180,626
Taxes Other Than Income	206,869	105,160	101,709
Income Taxes - Federal	58,992	21,408	37,584
Income Taxes - State	1,338	486	852
Amortization of ITC	0	0	0
Amortization of PAA	0	0	0
Amortization of CIAC	(171,782)	(42,344)	(129,438)
<b><u>Total</u></b>	<u>340,681</u>	<u>149,348</u>	<u>191,333</u>
<b><u>Total Operating Expenses</u></b>	<u>915,315</u>	<u>356,825</u>	<u>558,490</u>
<b><u>Net Operating Income</u></b>	<u>42,577</u>	<u>(4,942)</u>	<u>47,519</u>
Interest During Construction	(80)	(20)	(60)
Interest on Debt	167,102	41,993	125,109
<b><u>Net Income</u></b>	<u>(124,445)</u>	<u>(46,915)</u>	<u>(77,530)</u>

## Settlement Audit Exhibit DFS-11

**Tega Cay Water Service, Inc.**  
**Balance Sheet**  
**September 30, 2005**

<b><u>Assets</u></b>			
Plant In Service			
Water	3,003,103		
Sewer	9,039,280		
<b>Total</b>		12,042,383	
Accumulated Depreciation - Water	(731,857)		
Accumulated Depreciation - Sewer	(2,179,368)		
<b>Total</b>		(2,911,225)	
<b>Net Utility Plant</b>			9,131,158
Plant Acquisition Adjustment - Water	39,157		
Plant Acquisition Adjustment - Sewer	245,676		
<b>Total</b>			284,833
Construction Work In Process - Water	0		
Construction Work In Process - Sewer	0		
<b>Total</b>			0
Current Assets			
Cash	0		
Accounts Receivable - Net	144,432		
Other Current Assets	276		
<b>Total</b>			144,708
Deferred Charges			723
	<b><u>Total Assets</u></b>		<b><u>9,561,422</u></b>
<b><u>Liabilities and Other Credits</u></b>			
Capital Stock and Retained Earnings			
Common Stock and Paid In Capital	2,606,917		
Retained Earnings	378,199		
<b>Total</b>			2,985,116
Current and Accrued Liabilities			
Accounts Payable - Trade	32,350		
Taxes Accrued	88,663		
Customer Deposits	58,630		
Customer Deposits - Interest	27,388		
A/P - Associated Companies	(950,188)		
<b>Total</b>			(743,157)
Advances In Aid of Construction			
Water	0		
Sewer	0		
<b>Total</b>			0
Contributions In Aid of Construction			
Water	1,686,534		
Sewer	5,128,610		
<b>Total</b>			6,815,144
Accumulated Deferred Income Tax			
Unamortized ITC	0		
Deferred Tax - Federal	517,970		
Deferred Tax - State	(13,653)		
<b>Total</b>			504,317
	<b><u>Total Liabilities and Other Credits</u></b>		<b><u>9,561,420</u></b>

**BEFORE****THE PUBLIC SERVICE COMMISSION OF****SOUTH CAROLINA****DOCKET NO. 2006-97-WS**

IN RE:

Application of Tega Cay Water  
Service, Inc. for adjustment of  
rates and charges and modifications to  
to certain terms and conditions for the  
provision of water and sewer service.

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**SETTLEMENT TESTIMONY  
OF CONVERSE A. CHELLIS, III**

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2 A. My name is Converse A. Chellis, III. I am a Certified Public Accountant ("CPA")  
3 and a principal in and the Director of Litigation Services and Property Tax Services for  
4 Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah  
5 Island, and Summerville, South Carolina. My office is located at 133 East First North Street,  
6 Suite 9, Summerville, South Carolina 29483.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. In 1965, I graduated from The Citadel, The Military College of South Carolina with a  
9 bachelor's degree in business administration. I also have completed graduate level courses in  
10 accounting at the University of Georgia. In addition, I have had a minimum of forty (40)  
11 hours of continuing professional education ("CPE") each year since 1969, for a total of at  
12 least 1,440 total CPE hours.

13 **Q. PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL**  
14 **EXPERIENCE PRIOR TO YOUR CURRENT POSITION.**

1     A.           Upon graduation from The Citadel in 1966, I served in the United States Air Force  
2               and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross (now  
3               Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in 1972, and  
4               have been a name partner and managing partner in several accounting firms until 1998. In  
5               1999, I merged my firm with Gamble Givens & Moody, where I am a principal and Director  
6               of Litigation Services.

7     **Q.     ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

8     A.           Yes. I am a member of the American Institute of Certified Public Accountants  
9               ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive  
10              committee, and in 1985 I served on the AICPA council.

11               I am also a member of the South Carolina Association of Certified Public  
12              Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter in  
13              1977-78 and as President in 1978-79. In 1985 I served as the State President of the  
14              SCACPA, having previously served on the state level as Vice-President, Secretary/Treasurer,  
15              and Director. I have also been Chairman of the SCACPA's Committee on Continuing  
16              Professional Education, Chairman and trustee for the SCACPA's educational fund, and  
17              Chairman of the SCACPA's Committee on Cooperation with Governmental Agencies.

18               From 1986-1994, I was a member of the State Board of Accountancy, where I served  
19              as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

20               From 1982-1998, I was a member of Accounting Firms Associates, inc. I am also a  
21              past member of the American Society of Appraisers, and a current member of the American  
22              College of Forensic Examiners. In addition, I am a past associate in the Municipal Finance

1           Officers Association, and I have held various offices in the National Association of  
2           Accountants. I am also active in the peer review process, which involves examination of the  
3           work of other accountants and accounting firms to assure that quality controls are being  
4           applied in conformance with the Quality Control Standards adopted by the AICPA.

5   **Q.   HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER ACCOUNTANTS**  
6   **OR AUDITORS?**

7   A.           Yes. I have been a speaker and an instructor for the accounting profession on a  
8           number of accounting topics, including topics related to generally accepted accounting  
9           principles ("GAAP").

10   **Q.   HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**  
11   **CAROLINA COURT?**

12   A.           Yes. I have been qualified as an expert witness in both the circuit and family courts  
13           of South Carolina. I have also given testimony before this Commission and other  
14           administrative agencies.

15   **Q.   WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

16   A.           The purpose of my settlement testimony is to support the adoption of the Settlement  
17           Agreement reached between Tega Cay Water Service, Inc., or "TCWS", and the South  
18           Carolina Office of Regulatory Staff, or "ORS", in this case.

19   **Q.   IN YOUR OPINION, IS THE SETTLEMENT AGREEMENT A REASONABLE**  
20   **MEANS OF RESOLVING THE ISSUES IN THIS CASE?**

21   A.           Yes, it is.

22   **Q.   WHAT IS THE BASIS FOR YOUR OPINION IN THIS REGARD?**

1     A.             I have several reasons for believing that the Settlement Agreement is a reasonable  
2                   means by which to resolve the disputed issues in this case. First, one of the statutory duties  
3                   of ORS is to facilitate the resolution of disputed issues involving matters within the  
4                   jurisdiction of the Commission. I think it incumbent upon the other parties in cases before  
5                   the Commission, which in this proceeding is only TCWS, to work with ORS in good faith in  
6                   an attempt to reach a settlement. I believe that the Settlement Agreement reflects a good  
7                   faith effort on the part of ORS and TCWS to meet their respective obligations in that regard.

8                   Second, and as Dr. Skelton mentions in his testimony in support of the Settlement  
9                   Agreement, capital markets recognize the value of settlements in ratemaking cases.  
10                  Additional investment resulting from favorable capital markets would be an enhancement to  
11                  economic development in South Carolina which is consistent with the public interest.

12                  Third, a settlement brings the matter to an end without delay and the uncertainty of  
13                  further proceedings; this in turn permits ORS to focus its talents and resources on other  
14                  matters within its area of responsibility and permits the Company to focus upon the  
15                  continued improvement and expansion of its facilities and services for the benefit of its  
16                  customers.

17                  In summary, the comprehensive settlement proposed by the parties in my opinion  
18                  fairly balances the interest of the customers and the Company. I therefore respectfully urge  
19                  that the Commission approve the Settlement Agreement.

20     **Q.       DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

21     A.             Yes it does.

**BEFORE****THE PUBLIC SERVICE COMMISSION OF****SOUTH CAROLINA****DOCKET NO. 2006-97-WS**

IN RE:

Application of Tega Cay Water  
Service, Inc. for adjustment of  
rates and charges and modifications to  
certain terms and conditions for the  
provision of water and sewer service.

**SETTLEMENT TESTIMONY  
OF B. R. SKELTON, PhD.**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 **A.** My name is B. R. Skelton and my business address is 2962 Walhalla Highway,  
3 Six Mile, South Carolina 29682. I am Professor *Emeritus* of Economics at Clemson  
4 University and am engaged in a variety of private business endeavors, including real  
5 estate brokerage and residential construction. I also act as a mediator and arbitrator.  
6 Since 1974, I have mediated 190+ disputes and written decisions in over 1000 arbitration  
7 cases, mostly union-management grievances. I have also arbitrated deferrals from the  
8 courts and the NLRB.

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
10 **PROFESSIONAL EXPERIENCE.**

11 **A.** I received my B.S. degree in Arts & Sciences (History & Economics) from  
12 Clemson University in 1956. In 1958, I received a Masters of Science degree in  
13 Agricultural Economics from Clemson University. I received my Ph.D. in Economics  
14 from Duke University in 1964.



1                   From 1959 to 1987, I was a professor of Economics at Clemson except for 1961-  
2                   63 when I was in graduate school at Duke University. In addition to teaching standard  
3                   economic theory, my academic background includes writing, lecturing and research in  
4                   the areas of labor economics, economic development and arbitration. While at Clemson,  
5                   I was a member of the Southern Economics Association and American Economic  
6                   Association. I was also a member of the Arbitration Panel of the Federal Mediation and  
7                   Conciliation Service and the American Arbitration Association. I retired from Clemson  
8                   in 1987.

9   **Q.   PLEASE DESCRIBE YOUR WORK IN THE REAL ESTATE FIELD.**

10   **A.**           Over time I have developed subdivisions, commercial property, apartments and  
11           bought and sold real estate of all types.

12   **Q.   DO YOU PROVIDE ANY CONSULTING SERVICES?**

13   **A.**           I have served as a consultant to various individuals and companies, mostly  
14           wrongful death and injury, divorce, product liability and valuation of business losses. I  
15           was President of Economic Research and Consulting Associates prior to 1980, the  
16           business that provided this analysis. I have testified before the PSC in one case involving  
17           a water company in Oconee County.

18   **Q.   DO YOU HOLD ANY OTHER PROFESSIONAL DESIGNATIONS?**

19   **A.**           Yes. I am a mediator and arbitrator and am licensed by the State of South  
20           Carolina as both a real estate broker and residential contractor. I am also an elected  
21           member of the National Academy of Arbitrators and have been a member since 1981.

22   **Q.   WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

1 A. The purpose of my testimony is to provide support for the Settlement  
2 Agreement entered into by the parties in the proceeding on August 21, 2006.  
3 Specifically, I will be testifying as to the reasons why the 9.40% Return on Equity  
4 ("ROE") agreed to by the parties is a reasonable ROE for the Company in the  
5 context of a comprehensive settlement of this specific case and why the  
6 Commission should approve the proposed settlement.

7 **Q. WHY, IN YOUR OPINION, IS THE SETTLEMENT ROE OF 9.40%**  
8 **SUPPORTABLE AS A REASONABLE ROE FOR THE COMPANY IN**  
9 **THE CONTEXT OF A COMPREHENSIVE SETTLEMENT**  
10 **AGREEMENT?**

11 A. In the context of the present settlement agreement, which disposes of all  
12 issues in the case, rates set based upon a 9.40% ROE can provide investors the  
13 opportunity to earn a reasonable return on the Company's capital investment.  
14 Based on my knowledge of the capital market, and my understanding of its  
15 expectations related to regulated and non-regulated returns in the present  
16 economic context, I believe that 9.40% is a sufficient return which the capital  
17 market would expect in the context of a comprehensive settlement.

18 **Q. WHY IS A SETTLEMENT IMPORANT TO CAPITAL MARKETS?**

19 A. I believe that investors place great importance on the settlement of  
20 litigation disputes involving any industry. I am aware from my experience in  
21 mediating and arbitrating labor disputes that the capital markets in general react  
22 favorably to the settlement of wage/benefit issues which comprise only one aspect

1 of the overall financial picture for non-regulated industries. Whether utility rate  
2 cases are settled or litigated is even more important to investors in the utility  
3 industry as these cases involve every aspect of the financial picture of a utility and  
4 therefore figure prominently in analysts' reports and evaluations of these cases.  
5 The settlement of a rate case is therefore a factor that strongly influences the  
6 capital market's assessment of the regulatory climate a utility operates in. The  
7 capital market sees settlements as an indication of a cooperative relationship  
8 between a utility and its regulators and the other participants in the regulatory  
9 process. Given this, I believe that this settlement should be approved.

10 **Q. IN YOUR OPINION, ARE THERE OTHER REASONS WHY THE**  
11 **COMMISSION SHOULD APPROVE THE SETTLEMENT PROPOSED BY**  
12 **THE PARTIES IN THIS CASE?**

13 A. Yes. I believe that administrative economy supports Commission approval of the  
14 proposed settlement and that settlements should be favored since they reflect a  
15 solution devised by the parties which is more likely to address their needs.

16 **Q. WOULD YOU ELABORATE ON THAT STATEMENT?**

17 A. Yes. The Commission has scarce resources available to be used in the discharge of  
18 its duties. These are important duties which have been delegated to the  
19 Commission by the legislature. Settlement of this case will permit the Commission  
20 to focus its resources on other matters within its purview. Further, in my  
21 experience as a mediator and arbitrator, I have come to understand that part of the  
22 value of settling disputed matters is that it results in a resolution more likely to fit

1           the needs and circumstances of the parties than does an imposed resolution. I

2           believe that to be the case here.

3   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

4   **A.           Yes, it does.**

EXHIBIT " E" to Settlement Agreement  
Docket No. 2006-97-WS

TEGA CAY WATER SERVICE, INC.

PROPOSED SCHEDULE OF RATES AND CHARGES

I. WATER

1. CHARGE FOR WATER DISTRIBUTION ONLY

Where water is purchased from a government body or agency or other entity for distribution by the Company, the following rates apply:

Residential

Basic Facilities Charge per single family  
house, condominium, mobile home  
or apartment unit:

\$7.56 per unit\*

Commodity charge:

\$1.69 per 1,000  
gallons or 134 cft

\*Residential customers with meters of 1" or larger  
will be charged commercial rate

Commercial

Basic Facilities Charge

\$7.56 per single  
family equivalent  
(SFE)

Commodity charge:

\$ 1.69 per 1,000  
gallons or 134 cft

The Utility will also charge for the cost of water purchased from the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing the water supply will be charged to the Utility's affected customers on a pro rata basis without markup. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that

entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup.

Commercial customers are those not included in the residential category above and include, but are not limited to hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

2. Nonrecurring Charges

Tap Fees	\$600 per SFE*
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3. Account Set-Up and Reconnection Charges

- a. Customer Account Charge - for new customers only \$30.00
- b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of Forty dollars (\$40.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected. The reconnection fee shall also be due prior to reconnection if water service has been disconnected at the request of the customer.

4. Other Services

Fire Hydrant – One Hundred (\$100.00) per hydrant per year for water service payable in advance. Any water used should be metered and the commodity charge in Section One (1) above will apply to such usage.

5. Billing Cycle / Late Payment

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided. Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half (1.5%) percent for each month or any party of a month that said payment remains unpaid.

6. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

7. Cross Connection Inspection Fee

Any customer installing, permitting to be installed, or maintaining any cross connection between the Utility's water system and any other non-public water system, sewer or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2 (Supp. 2004), as may be amended from time to time. Such a customer shall annually have such cross connection inspected by a licensed certified tester and provide to Utility a copy of a written inspection report and testing results submitted by the certified tester in accordance with 24A S.C. Code Ann. Regs. R.61—58.7.F.8.(Supp. 2004), as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later than June 30<sup>th</sup> of each year. Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed certified tester and add the charges incurred by the Utility in that regard to the customer's next bill.

\* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory

Docket No. 2006-97-WS

Order No. 2006-582

October 9, 2006

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Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2005), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.



## II. SEWER

### 1. Monthly Charges

Residential - charge per  
single-family house, condominium,  
villa, mobile home or apartment unit:

\$33.02 per unit

Commercial:

\$33.02 per SFE\*

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

The Utility will also charge for treatment services provided by the government body or agency, or other entity. The rates imposed or charged by the government body or agency, or other, entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility, to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

### 2. Nonrecurring Charges

Tap Fees (which includes sewer  
Service connection charges and  
capacity charges)

\$1,200.00 per SFE\*

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the

appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. Notification, Account Set-Up and Reconnection Charges

a. Notification Fee

A fee of fifteen (\$15.00) dollars shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

b. Customer Account Charge - for new customers only.

A fee of twenty-five (\$25.00) dollars shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer is also a water customer.

c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty (\$250.00) dollars shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4.

4. Billing Cycle

Recurring charges will be billed monthly, in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service, unless treatment capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system. In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of

all costs associated with adding wastewater treatment capacity to the affected sewer system.

\*A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities --25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2005), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee

6. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.